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TAGS: ECON ENRG PGOV PREL RU GG

SUBJECT: GEORGIA: MINISTER OF ENERGY ON ENGURI AO DEAL,
ABKHAZ POLITICS

REF: A. A) TBILISI 57

- 1B. B) 08 TBILISI 1654 (NOTAL)
- 1C. C) 08 TBILISI 1867 (NOTAL)
- 1D. D) 08 TBILISI 2190

Classified By: Ambassador John F. Tefft for reasons 1.4 (b) and (d).

¶1. (C) Summary: Minister of Energy Alexander Khetaguri provided the Ambassador with more details and his private thoughts on the recent deal to enter into a joint management agreement for the Enguri power facility with Russian firm InterRAO-UES (ref A). Despite the negative press the Minister continues to receive for signing a deal with the Russians on one of Georgia's strategic energy assets, the Minister was optimistic. He stressed that the deal with RAO was the best possible option given the increasingly untenable situation the Georgians found themselves in at Enguri. He said that any deal relating to Enguri was a gamble, but he believed RAO to be a more stable bet than the unpredictable Abkhaz. He added that Georgia will now be paid annually the nearly 14 million GEL (approximately \$8.4 million) it had lost providing electricity free of charge to the Abkhaz for the last 15 years. Khetaguri stressed that the MOU is only a management agreement, and no shares of the Enguri facility will be sold to or controlled by the Russians. End Summary.

BETWEEN A ROCK AND A HARD PLACE) RUSSIANS OR ABKHAZ?

¶2. (C) While Khetaguri would have preferred not to negotiate with either the Abkhaz or the Russians over Enguri production, he recognized in the current situation that a formal agreement was necessary. After meeting separately with both his counterpart (de facto "minister" of Energy) in Abkhazia Rezo Zantaria and the head of the Russian firm InterRAO-UES Yevgeniy Dod, Khetaguri decided that RAO was the safer gamble for the Georgians. Khetaguri told the Ambassador that given Enguri's strategic importance in Georgia's energy infrastructure, he had to make a gamble on who would be the better partner. Referencing Zantaria's request following the conflict for Georgia to give 50 percent ownership of the Enguri power plant to the Abkhaz or face a power cut off (ref B), Khetaguri said a joint management agreement is much more palatable. He stressed that bringing in a Russian commercial entity would hopefully decrease the chances that the Russians would support a take over of the dam by military means. He also noted that RAO has been a reliable investor in the Telasi electricity facility, as even during the conflict they did not shut off power to Tbilisi. In short, Khetaguri said he trusts RAO more than the Abkhaz.

ONLY MANAGEMENT) ENGURI REMAINS GEORGIAN

¶3. (C) Khetaguri stressed that the agreement with RAO was management only, and all 100 percent of Enguri's shares remain in Georgian hands. Any change in the ownership structure would require Georgian Government approval and that there are no plans to mortgage the country's assets. He said that while the Abkhaz were demanding ownership shares, RAO is

quite happy with joint management and 40 percent of production.

MOU DETAILS) PRODUCTION SHARING AND PROMISED INVESTMENT

¶4. (C) The MOU between Georgia and RAO defines a joint management contract with a 60-40 split on produced electricity. The two sides continue to negotiate on the actual contract, which should be signed by mid-February. As reported earlier, the management board would consist of three Russians and three Georgians, with the current executive director and facility staff maintaining their positions (ref Qdirector and facility staff maintaining their positions (ref A)). RAO has pledged to invest in redeveloping the Vardinili power generation facilities. Khetaguri also said that he pushed RAO to include the Telasi facility and blocks 9 and 10 of the Gardabani thermal station as collateral to give the Georgians more certainty. When RAO hesitated, Khetaguri told them that if the Enguri facility was seized they would nationalize Telasi anyway. RAO quickly agreed. RAO will essentially take over the electricity that had been provided free to the Abkhaz over the past 15 years, and presumably ask the Abkhaz to pay commercial prices. Khetaguri was also optimistic that this agreement could help to stabilize prices in Georgia, as the two sides agreed to a 700M KW power swap, in which RAO would take 350M KW of its power in the summer and the Georgians 350M KW in the winter, when they need it most. In the winter only, the Georgians have granted RAO a 650M KW right of way to use Georgia's lines to export to Russia or Turkey. Khetaguri said the Ministry is negotiating RAO's management fee, but that he intended to ask for a symbolic price based on the profits RAO takes from the agreement

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WHAT ABOUT THE ABKHAZ?

¶5. (C) The Ambassador asked where this new deal left the Abkhaz, and Khetaguri said that now depended on RAO. He said the only physical changes or access to the system that RAO requested of the Ministry were access and permission to meter in Abkhazia. Of course, the Georgians readily agreed. It appears that Abkhazia will now have to pay the Russians for what the Georgians gave them free for 15 years (equivalent to approximately 15M GEL annually). The Abkhaz historically only consume about 20 percent of Enguri's production. RAO could therefore, continue to provide electricity to the Abkhaz while exporting to more lucrative markets in Turkey and Russia. Khetaguri said it would not surprise him if this agreement and its practical implementation led to conflicts between the Russians and Abkhaz.

RUSSIAN AND ABKHAZ POLITICS BEHIND THE DECISION

¶6. (C) Khetaguri said that he believed Dod had won permission directly from Putin to sign the deal with the Georgians, and that Putin in turn dictated to the Abkhaz. Publicly, the Abkhaz have said they are "bewildered" by the agreement. Khetaguri said that, although Zantaria is a supporter of de facto "president" Bagapsh, he was strongly against the deal because he believed it was bad for Abkhazia. Bagapsh, on the other hand, was privately supportive. Khetaguri believed that RAO had paid off Bagapsh in order to buy his support. He said that Bagapsh needs the money to defeat de facto & foreign minister Shamba in presidential elections scheduled to take place in late 2009. (Note: In a January 20 Apsnipress statement, Bagapsh is quoted as being "bewildered" by the deal and claims Enguri belongs to the Abkhaz. At the same time, he expressed willingness to "hold negotiations" with RAO.

COMMENT: MAKING THE BEST CHOICE

¶7. (C) Khetaguri, a smart and savvy technocrat, believes that RAO was Georgia's best choice for maintaining Georgia's

electricity supply and control of Enguri. He is weathering the negative media campaign well and said he spent many hours at Parliament on January 15 explaining the agreement. He walked away from the hearings feeling that the Georgian Parliament understood his actions and the choice that Georgia faced. The unpredictability of the Abkhaz, as well as an increasingly tense Abkhaz-Russian relationship, made signing a joint management deal with RAO a gamble he was willing to take. This deal also shows that despite Abkhaz &independence8 and Russian recognition of the &country,8 that Georgian law continues to govern the territory, and the fact that a Russian company has signed a deal on Enguri means that the Russians have de facto recognized as much. This creates a legal precedent for other countries looking to make deals with Abkhazia.

18. (C) Comment Continued: According to the agreement, Georgia will be able to profit from electricity it has given away for free for 15 years, while securing capital to undertake infrastructure upgrades on the Vardnili complex. If RAO does not hold up its end of the bargain, the Georgians can seize the company's assets in Tbilisi. If the Abkhaz suddenly find themselves forced to pay for electricity which had previously been free, Khetaguri is right that this deal could sow seeds of disagreement between the Russians and Abkhaz. Khetaguri's insights on the Abkhaz political landscape illustrated breaks between Abkhaz leadership, even within consolidated camps. Khetaguri asserted that competition between Shamba and Bagapsh for leadership of the region could present an opportunity to reach out to one party or the other. End Comment.

TEFFT